Workplace Safety and Insurance Board

First Quarter 2014 Report to Stakeholders

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Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

Management's Responsibility for Financial Reporting

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and accompanying condensed interim consolidated financial statements as approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"), are prepared by management as at and for the three months ended March 31, 2014.

The accompanying unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2014 have been prepared in accordance with IAS 34 *Interim Financial Statements*, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

In this MD&A, "WSIB," or the words "our," "us" or "we" refer to the WSIB. This MD&A is dated March 31, 2014, and all amounts herein are denominated in millions of Canadian dollars, unless otherwise stated.

The information in this MD&A includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates and projections regarding future events based on information currently available, and involves assumptions, inherent risks and uncertainties. Readers are cautioned that actual results may differ materially from projections in cases in which future events and circumstances do not occur as expected.

I. David Marshall
President and Chief Executive Officer
June 12, 2014
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

Management's Discussion and Analysis

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1. Quarter in Review

Highlights of our performance for the three months ended March 31, 2014 compared to 2013.

The following MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of the WSIB as at and for the three months ended March 31, 2014 (the "consolidated financial statements").

Financial highlights for the three months ended March 31, 2014 compared to the three months ended March 31, 2013

- We generated $717 million of comprehensive income reflecting continued strong operating performance resulting from growth in premium revenues and improved return to work outcomes resulting in lower benefit payments, lower administrative and other expenses and a 3.8% return on our investments, well ahead of our long-term return target of 1.5%.
- Premium revenues increased $36 million or 3.3% reflecting a 4.8% increase in insurable earnings due to strong growth in the construction, health care, manufacturing and service industries and a 0.1% increase in our average premium rate, net of $14 million of higher net mandatory employer incentive programs expense reflecting improved return to work outcomes.
- Net investment income decreased $13 million representing a 3.8% return on investments compared to 4.5%. While the return for the quarter is greater than our quarterly target of 1.5%, we continue to remain cautious and target a 6.0% annual rate of return on our investments over a rolling 10 to 15 year period.
- Benefit payments decreased $28 million or 4.4% reflecting continued improved recovery and return to work outcomes for injured workers and fewer new lost-time injuries.
- Administration and other expenses, before allocation to benefit costs, decreased $16 million or 8.3% reflecting $13 million of lower long-term benefit expenses reflecting higher interest rates used to determine our discount rate, $10 million of lower bad debts, partially offset by $6 million of higher new systems development and integration expenses and $1 million of other operating expenses.
- Other comprehensive income was negative $141 million primarily attributed to lower interest rates used to value our pension plan liability.
- Our unfunded liability was $10,009 million as at March 31, 2014, a decrease of $629 million or 5.9%, corresponding to a 2.3 percentage point increase in our funding ratio from 65.4% as at December 31, 2013 to 67.7% at March 31, 2014.

Operational highlights for the three months ended March 31, 2014:

Increase in claim volumes. For the second consecutive quarter, the number of registered claims increased - 47,842 claims were registered in the first quarter of 2014 compared to 46,585 for the same quarter in 2013 - a 2.7% increase. The increase in claim volumes is a result of growth in the Ontario economy demonstrated by the 4.8% increase in insurable earnings for the first quarter of 2014 over the same quarter last year. All significant sectors, with the exception of health care (109 or 3.8% fewer claims) experienced an increase in registered lost-time claims for the first quarter of 2014. Most notable was the transportation sector, which experienced a 6.1% increase in insurable payroll and a 14.9% (229 additional claims) increase in lost-time claims. Overall, Ontario workplaces continue to become safer. In the first quarter of 2014, the lost-time injury rate decreased marginally by 0.01 to 0.98 claims per 100 workers.

Workers requiring longer term support continued to see improvements. In the first quarter of 2014, the percentage of workers on benefits at 48 and 72 months decreased by 0.2% and 1.6% to 3.5% and 5.4%, respectively. 75.4% of workers who completed their work transition plans found employment and the average loss of earnings percentage at lock-in continued to decrease, from 48.7% in the first quarter of 2013 to 45.7% in the first quarter of 2014.

Deterioration in short-term duration results. The short-term duration deterioration observed in the last two quarters of 2013 continued in the first quarter of 2014, with 12.1% of workers on benefits at three months, compared to 11.5% in the first quarter of 2013. Over the last few quarters, the WSIB has focused on understanding the key drivers of the increase in short-term durations and work is underway to ensure that workers continue to be adequately supported in their recovery and return to work efforts.

Continued investment in health care. In 2014, the WSIB continued to move away from a traditional passive, fee-for-service payer system by developing a worker-centric health care provider system with deep understanding of occupational health and work reintegration. In the first quarter of 2014, the WSIB's costs for Specialty Clinics and Programs of Care increased by 7.4% ($1 million) and 34.5% ($1.2 million), respectively. Combined, almost 15,000 injured workers participated in these programs. This investment continued to lead to improved recovery outcomes. In the first quarter of 2014, the percentage of workers with a permanent impairment (the "PI") decreased to 5.6% from 7.6% in the first quarter of 2013 and the average PI award remained steady at 9.9%.

Improving customer satisfaction. Over the past year, the WSIB has steadily improved its customer satisfaction results among workers for timeliness measures, specifically, the time it takes to be contacted by the WSIB after first submitting their claim, providing answers to their questions or request in a timely manner, and the amount of time to receive the service they required. Registered employers' perception of how well the WSIB performs versus its mandate and how much they trust the WSIB has increased steadily over the last year. Registered employer ratings have also improved over several service excellence measures. Nearly nine in ten are very or somewhat satisfied with the service they received on account management.

Appeals modernization improves efficiency. In February 2013, the WSIB introduced several changes to its appeals program that centred on creating efficiencies and improving performance. Almost immediately, results demonstrated that our efforts were making a difference, and this trend continued in the first quarter of 2014. The percentage of appeals resolved within six months increased from 47.4% in the first quarter of 2013 to 87.5% in the first quarter of 2014. Additionally, the active inventory of appeals continued to be well below historical levels.

Technology transformation continued. In order to deliver better return to work outcomes and improve customer service, the WSIB continued the transformation of its technology systems. With the goal of shifting our focus away from process and towards results, we are implementing industry-leading solutions for business needs such as managing cases and accounts, storing documents and data, and providing online access for customers. In April 2014, the WSIB realized a significant milestone in its technological transformation journey. The first of the three-stage releases of our new Account and Claims Enterprise Solution (ACES) was rolled-out, providing easier access to information and more efficient claims processing and decision-making for over 1,000 Schedule 2 accounts. Early feedback from the system users has been positive and we will build on this momentum as we continue to develop integrated solutions to serve our entire employer and worker community.

Looking ahead. The first quarter of 2014 results indicate that we have come a long way toward reaching our goal of being the leading workplace compensation board in Canada, but that we must remain vigilant to respond to emerging trends in our performance. The declining results in short-term duration, combined with the increase in claim volumes, may impact our performance on other key indicators, including long-term durations, percentage of workers with a permanent impairment, or PI, and benefit payments. Therefore, the WSIB continues to closely monitor its performance and take corrective action to ensure we are on track to a sustainable future that continues to support the workers and employers of Ontario.

2. Operating Results

A more detailed discussion of our financial performance for the three months ended March 31, 2014 compared to 2013.

This section provides a detailed discussion of our financial performance. Certain prior year figures have been reclassified to conform to the current year's presentation. Additionally, our consolidated financial statements have been prepared in accordance with IFRS. All amounts herein are in millions of Canadian dollars, unless otherwise specified.

Financial highlights

The following table sets forth our operating results for the three months ended March 31:

	Three months ended March 31	
(millions of Canadian dollars)	**2014**	**2013**
Revenues		
Premiums	1,151	1,101
Net mandatory employer incentive programs	(24)	(10)
	1,127	1,091
Net investment income		
Investment income	752	755
Investment expenses	(43)	(33)
	709	722
	1,836	**1,813**
Expenses		
Benefit costs		
Benefit payments	612	640
Claim administration costs	102	109
Change in actuarial valuation of benefit liabilities	98	196
	812	945
Loss of Retirement Income Fund contributions	15	16
Administration and other expenses	75	84
Legislated obligations and funding commitments	76	79
	978	1,124
Excess of revenues over expenses	**858**	**689**
Other comprehensive income (loss)		
Remeasurements of employee defined benefit plans	(141)	106
Total comprehensive income	**717**	**795**
Total comprehensive income attributable to:		
WSIB stakeholders	629	702
Non-controlling interests	88	93
	717	**795**
Other measures		
Core Earnings[1]	247	163
Return on investments[2]	3.8%	4.5%
Unfunded liability[3]	(10,009)	(13,359)
Funding ratio[4]	67.7%	57.5%

1. Core Earnings is calculated as total comprehensive income, excluding the impacts of net investment income, changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 12 – Non-IFRS Financial Measure.
2. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals prior to investment expenses.
3. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
4. Funding ratio is calculated as total assets, excluding non-controlling interests in investments, divided by total liabilities at the reporting date.

Premiums

Premiums were $1,127 million compared to $1,091 million, an increase of $36 million or 3.3% and are segmented as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	2014	2013	$	%
Schedule 1 employer premiums				
Gross Schedule 1 premiums	1,123	1,070	53	5.0
Interest and penalties	10	13	(3)	(23.1)
	1,133	1,083	50	4.6
Schedule 2 employer administration fees	18	18	-	-
	1,151	1,101	50	4.5
Net mandatory employer incentive programs	(24)	(10)	(14)	(100+)
	1,127	**1,091**	**36**	**3.3**

Gross premiums increased $53 million or 5.0% reflecting $52 million attributed to a 4.8% increase in insurable earnings and $1 million or 0.1% attributed to the increase in the average premium rate charged to employers in 2014.

Interest and penalties decreased $3 million or 23.1% reflecting lower penalties for failure to report premiums and interest charged to employers for late payments.

Net mandatory employer incentive programs increased $14 million or 100+% reflecting higher refunds available under the retrospective experience-rating programs, principally the New Experimental Experience Rating program, reflecting favourable claims experience.

Net investment income

A summary of investment income, segmented by asset class for the three months ended March 31 is as follows:

	Three months ended March 31							
Asset Class	2014				2013			
(millions of Canadian dollars)	Investment income (loss)	Return %	Net asset value[1]	%	Investment income (loss)	Return %	Net asset value[1]	%
Fixed income	130	2.7	5,174	23.8	33	0.8	4,807	25.9
Public equities	348	4.6	8,107	37.2	555	8.1	7,708	41.6
Multi-asset	228	4.7	4,868	22.4	116	3.4	3,745	20.2
Real estate	33	1.3	1,913	8.8	42	2.7	1,357	7.3
Infrastructure	12	2.3	599	2.8	7	3.0	292	1.6
Cash and cash equivalents	1	-	1,039	4.7	2	-	561	3.0
Annuities	-	-	73	0.3	-	-	69	0.4
Investment income	**752**	**3.8**	**21,773**	**100.0**	**755**	**4.5**	**18,539**	**100.0**
Investment expenses	(43)				(33)			
Net investment income	**709**				**722**			

1. Total net asset value includes investment cash, investment receivables and payables, and investment derivatives.

For the three months ended March 31, 2014, we generated $709 million of net investment income representing a 3.8% gross rate of return compared to $722 million of net investment income representing a 4.5% rate of return. Over 15 years, our investment return prior to investment expenses was 6.0%.

The higher than expected returns in the first quarter of 2014 are not a reflection of expected future performance. We set our forward return expectations based on our long-term expected return of 6.0%.

Benefit costs

Benefit costs consist of: (i) benefit payments to or on behalf of injured workers; (ii) claim administration costs, which represent an estimate of our administration costs necessary to support benefit programs; and (iii) the change in the actuarial valuation of our benefit liabilities, which represents an adjustment to the actuarially determined estimates for future claim costs existing at the date of the consolidated statement of financial position. Total benefit costs were $812 million, a decrease of $133 million, or 14.1% as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2014**	**2013**	**$**	**%**
Benefit payments	612	640	(28)	(4.4)
Claim administration costs	102	109	(7)	(6.4)
Change in actuarial valuation of benefit liabilities	98	196	(98)	(50.0)
Total benefit costs	**812**	**945**	**(133)**	**(14.1)**

Benefit payments

Benefit payments represent cash paid during the period to or on behalf of injured workers. Benefit payments are comprised of the following:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2014**	**2013**	**$**	**%**
Loss of earnings	213	224	(11)	(4.9)
Workers' pensions	151	158	(7)	(4.4)
Health care	121	120	1	0.8
Future economic loss	58	63	(5)	(7.9)
Survivor benefits	44	44	-	-
External providers	12	15	(3)	(20.0)
Non-economic loss	11	12	(1)	(8.3)
Other	2	4	(2)	(50.0)
Total benefit payments	**612**	**640**	**(28)**	**(4.4)**

A summary of the changes in benefit payments is as follows:

- Loss of earnings benefits decreased $11 million or 4.9% reflecting 2,870 or 10.8% fewer non-locked-in claims as at March 31, 2014 compared to 2013. This decrease was primarily due to improved claims management through better recovery and return to work outcomes.
- Workers' pensions decreased $7 million or 4.4% reflecting the natural reduction of claims due to mortality.

- Health care costs increased $1 million or 0.8% reflecting a 3.9% increase in the number of health care services. This change reflects increases in payments to specialty clinics and programs of care supporting early return to work of injured workers, partially offset by a reduction in drug payments due to price reductions for generic drugs and fewer narcotics.
- Future economic loss benefits decreased $5 million or 7.9% reflecting the natural drop in the number of claimants that reach age 65, the age at which these benefits cease.
- Survivor benefits expense remains unchanged.
- External providers' expense decreased $3 million or 20.0% primarily due to fewer lost-time injuries in recent years and a more targeted approach to return to work.
- Non-economic loss awards decreased $1 million or 8.3% reflecting fewer lost-time injuries in recent years, and the impact of more effective health care support resulting in a 0.4% reduction in the average permanent impairment from 10.1% to 9.7%.
- Other benefit costs decreased $2 million or 50% primarily due to lower overpayments and temporary supplements for claims prior to Bill 99.

Claim administration costs

Claim administration costs reflect the portion of administration and other expenses allocated to claim administration costs. For 2014, the allocation of administration and other expenses to claim administration costs was $102 million compared to $109 million in 2013, a decrease of $7 million or 6.4%.

Change in actuarial valuation of benefit liabilities

The change in the actuarial valuation of the benefit liabilities is as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	2014	2013	$	%
Change in actuarial valuation of benefit liabilities	98	196	(98)	(50.0)

Change in actuarial valuation of benefit liabilities represents the change in the present value of future payments, including the following:

- loss of earnings and other disability benefits;
- health care, survivor and labour market re-entry;
- claim administration related to claims that occurred on or before March 31, 2014; and
- occupational disease claims expected to arise in the future as a result of exposures that were incurred in the workplace on or before March 31, 2014 in respect of occupational diseases currently recognized by the WSIB.

Change in actuarial valuation of benefit liabilities was $98 million compared to $196 million. The $98 million reduction in 2014 reflects the continuation of favourable experience, detailed as follows:

(millions of Canadian dollars)	2014
Benefit liabilities as at December 31, 2013	**26,960**
Payments made in 2014	(714)
Interest accretion[1]	333
Liabilities incurred for the 2014 injury year	479
Benefit liabilities as at March 31, 2014	**27,058**
Change in actuarial valuation of benefit liabilities	**98**

1. Accretion represents the estimated interest cost of the benefits liabilities, considering the discount rate, benefit liabilities at the beginning of the period and payments made during the period.

Administration and other expenses

Administration and other expenses, before allocation to benefit costs, were $177 million, a decrease of $16 million or 8.3%. A summary of changes in administration and other expenses for the three months ended March 31 is as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	2014	2013	$	%
Salaries and short-term benefits	97	94	3	3.2
Long-term benefit plans	32	45	(13)	(28.9)
Bad debts	-	10	(10)	(100.0)
Communications	2	2	-	-
Depreciation and amortization	4	6	(2)	(33.3)
Equipment and maintenance	14	12	2	16.7
Facilities	11	10	1	10.0
New systems development and integration	7	1	6	100+
Termination benefits	2	6	(4)	(66.7)
Other	8	7	1	14.3
	177	193	(16)	(8.3)
Claim administration costs allocated to benefit costs	(102)	(109)	7	6.4
Total administration and other expenses	**75**	**84**	**(9)**	**(10.7)**

- Salaries and short-term benefits increased $3 million or 3.2% reflecting inflationary pressures.
- Long-term benefit plans decreased $13 million reflecting an 80 basis point increase in interest rates used to value our pension and other post-retirement obligations.
- Bad debts decreased $10 million reflecting the timing of amounts determined to be uncollectible.
- Communications expenses were unchanged.
- Depreciation and amortization decreased $2 million reflecting accelerated amortization of intangible assets in 2013 and a lower capital asset base. Equipment and maintenance expenses increased $2 million reflecting higher infrastructure support costs.
- Facilities expense increased $1 million due to higher repairs and maintenance costs.

- New systems development and integration expenses increased $6 million reflecting the costs of information technology projects undertaken to modernize the WSIB.
- Termination benefits decreased $4 million due to the absence of significant staff reductions in 2014.
- Other expenses increased $1 million due to higher consulting and professional services.

Legislated obligations and funding commitments

Legislated obligations were $76 million, a decrease of $3 million or 3.8%, as follows:

	Three months ended March 31			
			Change	
(millions of Canadian dollars)	**2014**	**2013**	**$**	**%**
Legislated obligations				
Occupational Health and Safety Act	24	28	(4)	(14.3)
Ministry of Labour Prevention Costs	29	29	-	-
	53	57	(4)	(7.0)
Workplace Safety and Insurance Appeals Tribunal	4	5	(1)	(20.0)
Workplace Safety and Insurance Advisory Program				
Office of the Workers' Adviser	4	3	1	33.3
Office of the Employers' Adviser	1	1	-	-
	5	4	1	25.0
Total legislated obligations	62	66	(4)	(6.1)
Funding commitments				
Safety program rebates	14	13	1	7.7
Total funding commitments	14	13	1	7.7
	76	**79**	**(3)**	**(3.8)**

Legislated obligations and funding commitments were $76 million, a decrease of $3 million or 3.8% compared to 2013 reflecting the timing of payments to the Ministry of Labour (the "MoL") and $1 million of incremental cost to extend the Safety Group Programs to Safety Group graduates as an interim transitional measure until new programs are introduced by the Province of Ontario (the "Province").

3. Financial Condition

A discussion of the significant changes in our March 31, 2014 consolidated statement of financial position.

Changes in our consolidated statement of financial position are as follows:

			Change		
(millions of Canadian dollars)	Mar. 31 2014	Dec. 31 2013	$	%	Commentary
Assets					
Cash and cash equivalents	1,390	1,274	116	9.1	See Section 5 – Liquidity and Capital Resources.
Receivables	1,477	1,168	309	26.5	Higher experience rating surcharge provision.
Equity securities	8,705	8,567	138	1.6	No significant changes.
Bonds	5,549	5,448	101	1.9	No significant changes.
Other invested assets	6,204	5,893	311	5.3	No significant changes.
Property and equipment	131	133	(2)	(1.5)	No significant changes.
Intangible assets	29	27	2	7.4	No significant changes.
Liabilities					
Payables and accruals	1,082	1,090	(8)	(0.7)	No significant changes.
Derivative liabilities	56	78	(22)	(28.2)	Decrease reflects changes in our currency and futures positions within our investment portfolio.
Long-term debt	167	168	(1)	(0.6)	No significant changes.
Loss of Retirement Income Fund liability	1,585	1,538	47	3.1	No significant changes.
Employee benefit plans liability	1,068	920	148	16.1	Increase primarily reflects losses due to actuarial assumption changes and experience.
Benefit liabilities	27,058	26,960	98	0.4	See Section 2 – Operating Results. Changes in actuarial methods and assumptions.
Unfunded liability	(10,009)	(10,638)	629	5.9	Comprehensive income attributable to WSIB stakeholders.

4. Summary of Quarterly Results

A summary view of our quarterly financial performance.

Selected financial information for the eight consecutive quarters ended March 31, 2014 is as follows:

	2014	2013				2012[5]		
(millions of Canadian dollars)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Net premiums	1,127	1,034	1,149	1,113	1,091	988	1,068	1,068
Net investment income (loss)	709	894	532	(106)	722	433	488	(165)
Benefit costs								
Benefit payments	612	629	613	636	640	649	637	673
Claim administration costs	102	109	109	118	109	128	101	104
Change in actuarial valuation of benefit liabilities	98	(330)	(100)	144	196	512	8	150
	812	408	622	898	945	1,289	746	927
Loss of Retirement Income Fund contributions	15	15	16	15	16	17	16	17
Administration and other expenses	75	108	85	84	84	102	71	77
Legislated obligations and funding commitments	76	71	72	64	79	80	77	48
Excess (deficiency) of revenues over expenses	858	1,326	886	(54)	689	(67)	646	(166)
Remeasurements of employee defined benefit plans (Other comprehensive income (loss))	(141)	308	202	224	106	18	(89)	(166)
Total comprehensive income (loss)	717	1,634	1,088	170	795	(49)	557	(332)
Total comprehensive income (loss) attributable to WSIB stakeholders	629	1,523	1,020	178	702	(107)	493	(315)
Other measures								
Core Earnings[1]	247	102	254	196	163	12	166	149
Unfunded liability[2]	10,009	10,638	12,161	13,181	13,359	14,061	13,954	14,447
Funding ratio (%)[3]	67.7	65.4	61.1	58.1	57.5	55.3	54.9	53.0
Return on investments (%)[4]	3.8	5.0	3.1	(0.5)	4.5	2.8	3.4	(1.0)

Our quarterly revenues and expenses are impacted by a number of trends and recurring factors such as seasonality as well as general economic and market conditions. Seasonal factors impact our premium revenues, particularly in the construction industry, which continue to reflect higher insurable earnings in the first quarter of 2014 due to increased construction projects supported by strengthening economic conditions. Our premium revenues are also impacted by insurable earnings, which rise and fall with the employment levels in the industries we insure. Additionally, net investment income is influenced by global capital markets and has been volatile on a quarterly basis. We anticipate that the volatility in net investment income will continue throughout 2014.

1. Core Earnings is calculated as total comprehensive income (loss) excluding the impacts of net investment income (loss), changes in actuarial valuations and any items that are considered as material and exceptional in nature. See Section 12 – Non-IFRS Financial Measure.
2. Unfunded liability represents the deficiency of net assets attributable to WSIB stakeholders as at the end of the reporting period.
3. Funding ratio is calculated as total assets, excluding non-controlling interests in investments, divided by total liabilities at the reporting date.
4. Return on investments is calculated as the change in the fair value of the total investment portfolio, taking into account capital contributions and withdrawals, prior to investment expenses. Does not equal annual figures due to rounding.
5. Comparative figures for 2012 have not been adjusted for the changes in accounting policies adopted in 2013.

5. Liquidity and Capital Resources

A discussion of cash flow, liquidity, credit facilities and other arrangements.

The purpose of liquidity management is to ensure there is sufficient cash to meet our financial commitments and obligations as they fall due. We believe that we have the flexibility to obtain, from current cash holdings and ongoing operations, the funds needed to fulfill our cash requirements during the current financial period. We have three sources of funds: (i) premiums charged to employers; (ii) investment income; and (iii) cash and short-term investments.

Our funds are primarily used to satisfy benefit payments and operating expenses. As at March 31, 2014, we held $1,390 million of cash and cash equivalents of which $1,039 million was held for investing, $176 million was held for operating purposes, and $175 million was held in our Loss of Retirement Income Fund on behalf of injured workers.

	Three months ended March 31	
(millions of Canadian dollars)	**2014**	**2013**
Cash and cash equivalents, beginning of period	1,274	1,331
Cash provided by operating activities	111	38
Cash provided (required) by investing activities	12	(349)
Cash required by financing activities	(7)	(9)
Cash and cash equivalents, end of period	**1,390**	**1,011**

- Cash provided by operating activities was $111 million compared to $38 million reflecting continued improvements in operating performance.
- Cash provided by investing activities was $12 million compared to $349 million required by investing activities reflecting an increase in the net sales of investments, partially offset by an increase in net purchases related to business acquisitions and additions to investment properties during the quarter.
- Cash required by financing activities was $7 million compared to $9 million reflecting a net decrease in cash outflows to non-controlling interests, partially offset by an increase in cash outflows related to repayment of long-term debt.

Credit facilities

We maintain a $150 million unsecured line of credit with a commercial bank for general corporate purposes. As at March 31, 2014, we had not utilized any of this credit facility.

Commitments

The WSIB had the following commitments related to its investment portfolio:

	March 31	December 31
(millions of Canadian dollars)	**2014**	**2013**
Real estate, multi-asset and infrastructure investments	605	606
Investments in associates and joint ventures	160	198
Purchase or development of investment properties	13	197
	778	**1,001**

6. Critical Accounting Estimates and Judgments

A description of the critical accounting estimates and judgments that affect the measurement and presentation within the consolidated financial statements.

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Fair value measurement of investment properties

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third-party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the property.

Employee benefit plans

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Changes in these estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Fair value measurement of financial instruments

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows. Note 14 of the consolidated financial statements provides the estimated fair values of financial instruments categorized by the nature of the inputs used in the valuation techniques.

7. Recent Accounting Pronouncements

A discussion of new and amended IFRS developments that will or may impact our consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 and November 2013 as part of the International Accounting Standards Board's (the "IASB") ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 will be effective for the WSIB beginning January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carries forward the existing requirements in IAS 39. IFRS 9 was further amended on November 15, 2013 to introduce new guidance related to hedge accounting.

The IASB has proposed further amendments including a third financial asset category fair value through other comprehensive income for certain investments in debt securities, as well as amendments that address impairment.

IAS 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in November 2013, which will be effective for the WSIB beginning January 1, 2015.

The amendments to IAS 19 clarify the accounting for contributions by employees or third parties to defined benefit plans.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 will be issued in May 2014 and the effective dates will be published at that time. The new standard, which supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue* and related interpretations, improves financial reporting by creating a common revenue recognition standard for IFRS and US GAAP that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets.

Exposure drafts

a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

8. Legal Contingencies

A discussion of our legal proceedings, claims and other legal contingencies.

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements will vary.

9. Outlook

The outlook for our business.

Item	Original Expectation	Current Outlook
Premiums	3.0% increase reflecting a 3.0% increase in insurable earnings and no increase in average published premium rates.	No change.
Net investment income	We anticipate annual investment income will approximate 6.0% over the long-term.	No change.
Benefit costs	Continued downward trend reflecting improved operating results.	No change.
Administration and other expenses	Administration and other expenses are anticipated to remain stable.	No change.
Legislated obligations	Modest growth in this area reflecting the full cost of transitioning prevention activities to the MoL combined with an increase in safety program rebates.	No change.
Unfunded liability	Based on current funding and benefit levels and as measured under current accounting and actuarial standards, we believe the unfunded liability will decrease in 2014 and beyond, reflecting continued improved operating performance.	No change.

10. Internal Control over Financial Reporting

A statement of responsibilities regarding internal control over financial reporting.

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the annual report and ensuring its consistency with the consolidated financial statements.

11. Risk Factors

A discussion of the more significant risk factors affecting our business.

Introduction

We face a number of different risks and uncertainties that expose us to possible losses. Set forth below are those risks and uncertainties that we currently believe to be material. They are not, however, the only risks and uncertainties we face. If any of these risks (or any other risks and uncertainties that we have not yet identified, or that we currently consider to be not material) actually occur or become material, our business prospects, financial condition, results of operations and cash flows could be adversely affected. While we employ a broad and diversified set of risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every outcome or the specifics and timing of such outcomes.

Below are the financial, operational, regulatory and political risks we monitor and mitigate within our span of control.

Financial risks

Benefit liabilities

The WSIB, as the trust agency for administering the Province's compensation system, must ensure that there is adequate provision of funds to cover the cost of future claims. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors. (See Section 6 – Critical Accounting Estimates and Judgments)

Establishing an appropriate level of benefit liabilities is, therefore, an inherently uncertain process which presents a number of risks that could adversely affect our comprehensive income and financial condition.

The risks are predominantly related to:

- the failure to accurately make assumptions and assess the factors of claims costs which may result in setting premium rates that are inadequate to cover costs and contribute to the reduction of the unfunded liability; and
- unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate.

We mitigate these risks:

- by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns;
- with regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability;
- by engaging external actuaries to review actuarial assumptions and methodologies in establishing benefit liabilities; and

- by reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and Chief Statistician.

Investment risks

Our ability to meet our long-term obligations is dependent upon the sufficiency of our investment fund. The risks to our investment fund relate to liquidity, credit and the market. Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the investment fund is established. This risk would be manifest in the failure to achieve a net return of at least the long-term actuarial discount rate of 5.5% (5.0% to 2017 and 5.5% thereafter) over a horizon of rolling 10 to 15 year periods.

Our primary risk mitigation tool is the diversification of investment return sources as provided for in our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for their approval.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities.

We mitigate this risk by:

- investing the majority of our assets in readily marketable instruments (publicly traded equity and fixed income securities) while the remainder of our investments are in multi-asset, real estate and infrastructure investments that provide diversification;
- maintaining a portion of our investments in short-term (less than one year) highly liquid money market securities, which are used to manage our operational requirements; and
- maintaining a $150 million unsecured credit facility, which we can utilize to manage our liquidity needs.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. We are exposed to several types of credit risks including:

- risk that our fixed income investments, consisting primarily of investment grade debt instruments, may become impaired;
- counterparty risk relating to our securities lending and foreign currency programs;
- credit loss due to Schedule 1 employers not settling their premiums receivable and Schedule 2 employers not reimbursing the WSIB for their respective claim costs; and
- the risk that the Canadian life insurance companies that enter into annuity agreements with the WSIB to provide for fixed and recurring payments to claimants may fail to fulfill their obligations.

We manage our credit risk by:

- holding a diversified portfolio of debt instruments including a predominant component that is invested in government-issued bonds, to mitigate the risks of defaulting fixed income investments;
- mitigating securities lending counterparty risk through adopting a pre-approved qualified borrower list and through exposure limits; by requiring daily marking-to-market to maintain full collateralization with an additional margin for safety; and receiving indemnities from the financial institution that operates the securities lending program;
- mitigating foreign currency counterparty risk through an approved list of counterparties, credit rating limits, counterparty diversification and frequency of settlements; and
- holding collateral from some Schedule 2 employers in the form of letters of credit issued by highly

rated Canadian financial institutions.

Market risk

There are three types of market risk that we are exposed to including currency risk, interest rate risk and price risk:

- currency risk is the risk of loss due to adverse movements in foreign currency rates relative to the Canadian dollar;
- interest rate risk is the potential for financial loss arising from changes in interest rates; and
- price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

We apply various measures to mitigate the risks:

- using foreign exchange contracts to hedge a portion of currency exchange rate risk associated with certain foreign investment holdings. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception;
- reviewing interest rate risk through periodic asset and liability analyses, which assess the impact of different interest rate scenarios on our assets and liabilities over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to diversify the WSIB's exposure to the impact of changes in interest rate levels; and
- diversifying our investment portfolio in accordance with our investment policies. Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry and economic and political conditions, which may impact the issuers' ability to meet contractual commitments.

Operating risks

Strategy

Potential risks to our strategy include factors such as:

- delays in implementing new technologies;
- unforeseen costs;
- organizational capacity insufficient to support new strategic initiatives while meeting the demands of ongoing operations; and
- competing stakeholders' priorities.

To help mitigate these risks, we have established:

- a corporate business plan that establishes priorities and an enterprise road map to ensure that we have the right resources dedicated to executing the plan effectively and efficiently;
- a project portfolio governance framework to ensure project-management rigour and management accountability; and
- regular and ongoing stakeholder engagement to provide feedback, keep us informed, and provide opportunities for developing solutions.

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks, including:

- low or modest growth in the Province's employment levels, especially in covered industries, may result in not meeting premium revenue targets as well as limiting work transition opportunities;
- the growth in industries that are not required to have coverage under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA") may negatively impact the unfunded liability;
- the trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs; and
- a growing number of older workers in the workforce. If injured, they generally have a longer recovery time and greater challenge with return to work.

We mitigate these risks by:

- conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector;
- continuous monitoring and researching the job market for available, sustainable positions for injured workers ready to transition to the job market; and
- providing return to work and health care intervention programs to support injury recovery and sustainable return to work.

Claims management

Operational performance is reflected in how efficiently and effectively cases are managed and how closely their outcomes meet operational objectives. A number of risks can impact negatively on performance including:

- any rise in the lost-time injury rate will result in an increased volume of incoming claims and increased pressure on front-line resources;
- unexpected sources, volume or complexity of claims may arise, such as those arising from certain occupational diseases potentially putting increased cost pressure on the system;
- the development and implementation of transformation initiatives will put strain on organizational capacity and performance while front-line staff are focussed on developing, and then adapting to, new systems and processes; and
- any operating impacts causing delays in timely health care treatment and return to work services would increase the potential for longer claim durations, development of permanent impairments and ultimately increased claims costs.

We mitigate these risks by:

- supporting the reduction of workplace injuries and illnesses through our participation on the Chief Prevention Officer's Prevention Council; the provision of data to aid in the identification of priorities, and the provision of funding for the administration of the *Occupational Health and Safety Act* (the "OHSA") and support of the Province's health and safety associations and research;
- regularly monitoring and prioritizing project and operational needs to maximize organizational capacity; and
- monitoring the quality and timeliness of services through a series of key performance measures and taking corrective action when trending of results is not in line with expectations.

Business interruption

Our stakeholders rely on our ability to operate the system, without interruption. Our continuity of business may be subject to a number of risks such as:

- unforeseeable and/or catastrophic events to resources or infrastructure, such as a global flu pandemic or a power failure, may abruptly interrupt business activities and result in losses that could

be related to financial assets and key personnel;

- if our business continuity plans are inadequate, losses may increase further;
- our continued use of older system technology and back-up procedures to administer core business activities could result in impacts to our operations and in the potential loss of critical information should those systems fail; and
- while a five-year technology incremental recovery plan was initiated in 2007 it has not succeeded in establishing a permanent capability to run business operations in the event of a critical event failure. Further investment of funds, resources and systems would be necessary in order to develop and implement a disaster recovery program, if, in fact, one could be established. A number of our systems are very old and proving difficult to replicate for this recovery plan.

In order to mitigate the risks and maintain the integrity and continuity of our operations in the event of a crisis:

- we have an Enterprise Business Continuity Plan and Program in place to ensure we can continue to operate during business disruptions or emergencies. We are in the process of refreshing the plans given transformational changes that have been ongoing in the organization; and
- we are in the process of building replacement systems with planned robust recovery capabilities. Implementation commenced in the first quarter of 2014 and will continue throughout the year.

Our workforce and workplace

We remain actively engaged in transforming our business and ensuring that we have the right people, work processes and technology to support our vision. The transformation is part of our long-term business strategy to modernize the WSIB and become a more effective and efficient organization, delivering increased value to Ontario employers and workers.

Important elements in realizing organizational outcomes include our ability to attract and retain skilled resources now and in the future, and the ability of WSIB leadership to lead organizational change. Without these components, the organization risks slowed or less sustainable transformation.

These risks are being mitigated through:

- added rigour in human resources' planning process, the expansion of creative sourcing strategies and succession planning activities;
- building leadership capacity through structured management programs and through the provision of targeted leader support throughout the transformation process; and
- expanding diversity and inclusion initiatives and measuring and implementing action plans to increase employee engagement.

Technology

Given the high volume of transactions processed daily, we are reliant on technology and third parties that provide certain key components of our business infrastructure such as voice and data communications and network access. This presents a number of risks for the WSIB, mainly:

- failure of our technology and third-party systems could interrupt our operations and impact our ability to deliver services and benefits; and
- a security breach of our information systems could put sensitive data at risk, and result in reputational risk and potential liability given that they are used to maintain confidential information regarding our business, injured workers and employer firms.

To mitigate these risks:

- we have taken steps to secure our facilities and infrastructure with a series of security protocols for accessing technology;

- we ensure that third parties are legally bound to the WSIB's standards and requirements for security of systems, privacy, and strict confidentiality of information through contractual protection;
- the WSIB and third-party providers have contingency plans for ensuring continued operations should any of their systems fail; and
- our staff have been provided training to ensure hardware and mobile devices are not compromised in the event they are stolen, lost or accessed without authorization.

Regulatory, political and other influences

Our business is subject to changing legal, regulatory and other influences. Any amendments to the WSIA or other legislation could require the WSIB to make adjustments. For example, changes in law or regulations can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes. Further, political and stakeholder influences and competing interests, may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate this risk by:

- engaging with the Minister of Labour and the MoL to understand the intent of any legislative or regulatory changes and to consult on the potential impact to outcomes and capacity;
- accurately costing any legislative or regulatory changes to ensure that the impact of any change is fully understood;
- consulting with our stakeholder community during the planning and implementation of any legislative or regulatory changes, as well as WSIB program and policy changes; and
- ensuring that any changes to existing policies and programs are developed and implemented and that they align with our value propositions and organizational capabilities.

12. Non-IFRS Financial Measure

A definition of our non-IFRS financial measure.

Core Earnings

The WSIB uses a non-IFRS financial measure, "Core Earnings", to help stakeholders better understand our underlying operating performance. This measure is relevant in how we manage our operations and offers a consistent methodology in evaluating our underlying performance. Core Earnings are defined as comprehensive income excluding the impacts of investment income, changes in actuarial valuation and any items that are considered as material and exceptional in nature. This measure does not have any standard meaning prescribed by IFRS and is not necessarily comparable to similarly titled measures of other organizations.

Set forth below is the reconciliation of Core Earnings and comprehensive income, the most directly comparable financial measure calculated and presented consistent with IFRS:

	Three months ended March 31	
(millions of Canadian dollars)	**2014**	**2013**
Comprehensive income for the period	717	795
Less: Net investment income	(709)	(722)
(Less)/Add: Change in actuarial valuation of benefit liabilities	98	196
(Less)/Add: Change in actuarial valuation of employee benefit plans	141	(106)
Core Earnings	**247**	**163**

13. Related Party Transactions

A discussion of related party transactions and their relationship to our business.

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work & Health and the Safe Workplace Associations, clinics, and training centres. The total funding provided under these legislated obligations and funding commitments for the three months ended March 31, 2014 was $76 million compared to $79 million in 2013.

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents as legislated obligations in the consolidated statement of comprehensive income, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies, and Crown corporations of the Government of Ontario.

Included in investments are marketable fixed income securities issued by the Government of Ontario and related entities valued at $1,090 million as at March 31, 2014, compared to $1,083 million as at December 31, 2013.

14. Forward-looking Statements

Caution regarding forward-looking statements.

This MD&A constitutes "forward-looking statements," within the meaning of applicable Canadian securities laws. Forward-looking statements can be identified by the use of words such as "anticipates," or "believes," "budget," "estimates," "expects," or "is expected," "forecasts," "intends," "plans," "scheduled," or variations of such words and phrases or state that certain actions, events or results "could," "may," "might," "will," "would," or be taken, occur or be achieved. These forward-looking statements relate to, among other things, our future results, levels of activity, performance, goals or achievements or other future events. These forward-looking statements are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements.

These factors may cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on our business. For example, they do not include the effect of asset impairments or other changes announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them.

We believe that the expectations represented by our forward-looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding our anticipated financial performance and may not be appropriate for other purposes. Furthermore, unless otherwise stated, the forward-looking statements contained in this report are made as of the date of this report and we do not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise unless required by applicable legislation or regulation. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Financial Position

Unaudited (millions of Canadian dollars)

	Note	March 31 2014	December 31 2013
Assets			
Cash and cash equivalents	8	1,390	1,274
Receivables		1,477	1,168
Equity securities	9	8,705	8,567
Bonds	9	5,549	5,448
Other invested assets	9	6,204	5,893
Property and equipment		131	133
Intangible assets		29	27
Total assets		**23,485**	**22,510**
Liabilities			
Payables and accruals		1,082	1,090
Derivative liabilities		56	78
Long-term debt		167	168
Loss of Retirement Income Fund liability		1,585	1,538
Employee benefit plans liability	11	1,068	920
Benefit liabilities	12	27,058	26,960
Total liabilities		**31,016**	**30,754**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders		(10,009)	(10,638)
Non-controlling interests		2,478	2,394
Total deficiency of assets		**(7,531)**	**(8,244)**
Total liabilities and deficiency of assets		**23,485**	**22,510**

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Comprehensive Income
Unaudited (millions of Canadian dollars)

	Note	Three months ended March 31 2014	2013
Revenues			
Premiums	6	1,151	1,101
Net mandatory employer incentive programs	6	(24)	(10)
		1,127	1,091
Net investment income			
Investment income	9	752	755
Investment expenses	9	(43)	(33)
		709	722
		1,836	**1,813**
Expenses			
Benefit costs			
Benefit payments	12	612	640
Claim administration costs	7	102	109
Change in actuarial valuation of benefit liabilities	12	98	196
		812	945
Loss of Retirement Income Fund contributions		15	16
Administration and other expenses	7	75	84
Legislated obligations and funding commitments	15	76	79
		978	**1,124**
Excess of revenues over expenses		**858**	**689**
Other comprehensive income (loss)			
Remeasurements of employee defined benefit plans	11	(141)	106
Total comprehensive income		**717**	**795**

	Three months ended March 31 2014	2013
Excess of revenues over expenses attributable to:		
WSIB stakeholders	770	596
Non-controlling interests	88	93
	858	**689**
Total comprehensive income attributable to:		
WSIB stakeholders	629	702
Non-controlling interests	88	93
	717	**795**

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Changes in Deficiency of Assets
Unaudited (millions of Canadian dollars)

		Deficiency of assets		
	Note	Unfunded liability attributable to WSIB stakeholders	Non-controlling interests	Total
Balance as at December 31, 2012		(14,061)	2,103	(11,958)
Excess of revenues over expenses		596	93	689
Remeasurements of employee defined benefit plans	11	106	-	106
Change in ownership share in investments		-	(8)	(8)
Balance as at March 31, 2013		(13,359)	2,188	(11,171)
Excess of revenues over expenses		1,987	171	2,158
Remeasurements of employee defined benefit plans	11	734	-	734
Change in ownership share in investments		-	35	35
Balance as at December 31, 2013		(10,638)	2,394	(8,244)
Excess of revenues over expenses		770	88	858
Remeasurements of employee defined benefit plans	11	(141)	-	(141)
Change in ownership share in investments		-	(4)	(4)
Balance at March 31, 2014		**(10,009)**	**2,478**	**(7,531)**

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Condensed Interim Consolidated Statements of Cash Flows
Unaudited (millions of Canadian dollars)

	Three months ended March 31	
	2014	**2013**
Operating activities:		
Total comprehensive income	717	795
Adjustments:		
Amortization of net premium on investments	3	3
Depreciation and amortization of property, equipment and intangible assets	5	7
Changes in fair value of investments	(637)	(656)
Changes in fair value of investment properties	(1)	(4)
Dividend income from equity securities	(81)	(58)
Income from associates and joint ventures	(7)	(8)
Interest income	(53)	(68)
Interest expense	3	4
	(51)	15
Changes in non-cash balances related to operations:		
Receivables, excluding those related to investing activities	(71)	(68)
Payables and accruals, excluding those related to investing activities	(60)	(84)
Loss of Retirement Income Fund liability	47	55
Employee benefit plans liability	148	(76)
Benefit liabilities	98	196
	162	23
Net cash provided by operating activities	**111**	**38**
Investing activities:		
Dividends received from equity securities, associates and joint ventures	81	52
Interest received	35	51
Additions of property, equipment and intangible assets	(5)	(3)
Purchase of investments	(5,423)	(5,508)
Sale and maturities of investments	5,554	5,059
Additions of investment properties	(7)	(3)
Acquisition of associates and joint ventures	(39)	(3)
Disposition of associates and joint ventures	-	6
Business acquisitions	(184)	-
Net cash provided (required) by investing activities	**12**	**(349)**
Financing activities:		
Disposition of non-controlling interests	17	3
Distributions paid by subsidiaries to non-controlling interests	(20)	(11)
Net (repayment) issue of long-term debt	(1)	3
Interest paid on long-term debt	(3)	(4)
Net cash required by financing activities	**(7)**	**(9)**
Increase (decrease) in cash and cash equivalents	**116**	**(320)**
Cash and cash equivalents, beginning of period	1,274	1,331
Cash and cash equivalents, end of period	**1,390**	**1,011**

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD

Notes to Condensed Interim Consolidated Financial Statements
March 31, 2014
Unaudited (millions of Canadian dollars)

1. Nature of Operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"). As a trust agency of the Government of Ontario, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and workers. The WSIB is funded entirely by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario M5V 3J1.

2. Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting,* using accounting policies consistent with International Financial Reporting Standards ("IFRS"), which have been adopted by the Accounting Standards Board of Canada (AcSB) as Canadian generally accepted accounting principles for public interest entities.

These condensed interim consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on June 12, 2014.

3. Summary of Significant Accounting Policies

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the previous annual consolidated financial statements.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis, except for the following items:

a) financial instruments classified as fair value through profit or loss ("FVTPL"), which are measured at fair value;

b) investment properties, which are measured at fair value; and

c) liabilities for employee defined benefit plans, which are measured as the present value of the defined benefit obligations less the fair value of plan assets.

Basis of consolidation

a) Subsidiaries

Subsidiaries are entities controlled by the WSIB.

The financial statements of subsidiaries are included in the WSIB's consolidated financial statements from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to reflect accounting policies consistent with those of the WSIB. All intercompany transactions and balances are eliminated.

The majority of the WSIB's investment portfolio is held in subsidiaries in which the WSIB Employees' Pension Plan is a non-controlling interest.

b) Non-controlling interests

Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and total comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than a 100% interest. Total comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to WSIB stakeholders and non-controlling interests.

c) Investments in associates and joint ventures

Associates are entities over which the WSIB has significant influence, which is the power to participate in the financial and operating policy decisions but is not control or joint control of those policies. Generally, the WSIB is considered to have significant influence when it holds 20% or more of the voting power of an entity, but does not control or jointly control that entity. Joint ventures are entities over which the WSIB has joint control and has rights to the net assets of the arrangement. Joint control exists when the strategic, financial and operating decisions related to the entity require unanimous consent of parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, investments are initially recognized at cost and adjusted for the WSIB's proportionate share of the associates' or joint ventures' total comprehensive income.

d) Joint operations

Joint operations are investments in economic activities or entities over which the WSIB has joint control and has rights to specific assets, and obligations for specific liabilities, relating to the arrangement. Joint control exists when the strategic, financial and operating decisions related to the economic activity or entity require unanimous consent of parties sharing control.

The WSIB's consolidated financial statements include its share of assets, liabilities, revenues and expenses related to the joint operations.

Business combinations

At times, the WSIB's investment properties are acquired through business combinations. Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are recognized at their fair values at the date of acquisition. The transaction costs associated with business combinations are expensed as incurred.

Foreign currency

The WSIB's functional and presentation currency is the Canadian dollar. The Canadian dollar is also the functional currency of each of the WSIB's subsidiaries, associates and joint ventures.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the period-end rates of exchange. Non-monetary assets and liabilities that are measured at fair value are also translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in investment income or administration and other expenses.

Financial instruments

The WSIB recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the WSIB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities, with the exception of those classified as FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets and financial liabilities at FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument. The WSIB's financial assets and financial liabilities are classified as follows:

Financial asset or financial liability	Classification
Cash and cash equivalents	FVTPL (a)
Receivables	Loans and receivables (b)
Equity securities	FVTPL (a)
Bonds	FVTPL (a)
Other invested assets	
Investment funds	FVTPL (a)
Real estate debentures	FVTPL (a)
Derivative assets	FVTPL (a)
Annuities	FVTPL (a)
Payables and accruals	Other financial liabilities (c)
Derivative liabilities	FVTPL (a)
Long-term debt	Other financial liabilities (c)

a) Financial assets and financial liabilities at FVTPL

Financial assets and financial liabilities are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivatives. Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income.

Financial assets and financial liabilities that are classified as FVTPL are managed based on their fair value in accordance with the WSIB's documented risk management or investment strategy.

b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

c) Other financial liabilities

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation, or both. Investment properties acquired through a business combination are recognized at fair value and the related transaction costs are expensed as incurred. Investment properties acquired through an asset purchase are recognized at cost, which includes transaction costs. Subsequent to initial recognition, investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise.

Fair values of investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The future cash flows of each property are based on estimates of future cash flows from current and future leases.

Valuations of significant investment properties are performed by third-party appraisers, on an annual basis at a minimum, at varying dates throughout the year. On a quarterly basis, the fair value of investment properties is updated based on valuation models incorporating available market evidence.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When significant components of an item of property and equipment have different useful lives, they are accounted for as separate items.

Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land	Not depreciated
Buildings	
Primary structure	60 years
Components with different useful lives	10 - 30 years
Leasehold improvements	Lesser of the lease term or 10 years
Office and computer equipment	3 - 5 years

Intangible assets

Intangible assets, which include internally developed and acquired software, are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of three to five years.

Development costs associated with internally developed software are recognized as an intangible asset when certain criteria are met. These criteria require the WSIB to have the intention and ability to complete development of the software and the ability to demonstrate how the software will generate probable future economic benefits.

Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership of an asset to the lessee.

a) Leases where the WSIB is the lessee

Assets held under finance leases are recognized as assets and included in property and equipment. At the inception of the lease, the asset is measured at the lower of the present value of the minimum lease payments and the fair value of the leased asset. A corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between interest expense and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

Total payments under operating leases are recognized as an expense in administration and other expenses on a straight-line basis over the term of the lease. As an exception, operating leases for investment properties are accounted for as a finance lease. Investment properties held under operating leases are recognized as an asset and measured at fair value.

b) Leases where the WSIB is the lessor

All leases under which the WSIB is the lessor are leases of its investment properties and have been determined to be operating leases. Rental revenue from operating leases is recognized in investment income on a straight-line basis over the terms of the leases.

Impairment of non-financial assets

At each reporting date, the WSIB's property and equipment and intangible assets are reviewed to determine whether there is any indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in administration and other expenses. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets with independent cash inflows.

Premium revenues

Premium revenues are comprised of premiums from Schedule 1 employers and administration fees from Schedule 2 employers.

a) Schedule 1 employer premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Schedule 1 employers are required by legislation to pay premiums to the WSIB, which are recognized over the period that coverage is provided.

b) Schedule 2 employer administration fees

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. Schedule 2 employers are liable to pay all benefit compensation and administration costs for their workers' claims.

The WSIB administers the payment of the benefits for workers of Schedule 2 employers and recovers the cost of these benefits plus administration fees from the employers. The administration fees are recognized as the services are provided. The benefits paid on behalf of Schedule 2 employers and the amounts collected to recover the benefits paid are not included in the WSIB's revenues or expenses.

Investment income

Investment income is comprised of the following:

a) Realized and unrealized gains and losses on financial instruments

Financial assets and financial liabilities classified as FVTPL are measured at fair value, with changes recognized in investment income in the period they arise.

b) Interest and dividend income

Interest income is determined using the effective interest method and is recognized in investment income as it accrues. Dividend income is recognized in investment income when the WSIB's right to receive payment has been established.

c) Income from associates and joint ventures

The WSIB's proportionate share of its associates' and joint ventures' total comprehensive income is recognized in investment income in the period it is recognized by the associate or joint venture.

d) Income from investment properties

Investment properties are measured at fair value with changes in fair value recognized as investment income during the period in which they arise. Rental income and service charges from investment properties are also included in investment income and recognized in the period to which they relate.

Mandatory employer incentive programs

Schedule 1 employers participate in mandatory employer incentive programs that may result in adjustments to premium rates. Certain of these programs involve a surcharge to, or refund of, premiums based on the employer's claims experience. An estimate of the surcharges or refunds is recognized in the period to which they relate.

Legislated obligations and funding commitments

a) Legislated obligations

The WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act* (the "OHSA"). The WSIB is also required to fund costs associated with the Ministry of Labour's (the "MoL") prevention activities, the Workplace Safety and Insurance Appeals Tribunal, and the offices of each of the Worker and Employer Adviser. The expenses related to these legislated obligations are recognized as an expense in the period to which the funding relates.

b) Funding commitments

The WSIB is committed to provide funding for the Institute for Work & Health, Safe Workplace Associations, clinics, and training centres. The expenses related to these funding commitments are recognized as an expense in the period to which the funding relates.

c) Voluntary employer incentive programs

The WSIB is committed to provide financial incentives to Schedule 1 employers who undertake specific measures to improve health and safety. An estimate of the cost of these incentive programs is recognized as an expense in legislated obligations and funding commitments in the period the measures are undertaken by the employer.

Loss of Retirement Income Fund liability

The Loss of Retirement Income Fund liability represents an obligation for payments of retirement benefits to certain workers. The WSIB makes contributions to the Loss of Retirement Income Fund for injured workers who have received certain benefits for 12 consecutive months. The WSIB's contributions, and any voluntary contributions from injured workers, are segregated within the WSIB's investment portfolio as the Loss of Retirement Income Fund.

The WSIB's obligation to injured workers is to provide retirement benefits equal to the total contributions plus income earned on those contributions. As such, the Loss of Retirement Income Fund liability is measured at an amount equivalent to the fair value of the assets in the Loss of Retirement Income Fund. The WSIB's contributions to the Loss of Retirement Income Fund are recognized as the Loss of Retirement Income Fund contributions expense.

Benefit liabilities

Benefit liabilities represent the actuarially determined present value of the estimated future payments for reported and unreported claims incurred on or prior to the reporting date using best estimate assumptions. In addition, an obligation is estimated for claims in respect of occupational diseases currently recognized by the WSIB for which a claim has not yet been reported. The future payments are for estimated obligations for loss of earnings, labour market re-entry costs, short and long-term disability, health care, survivor benefits, retirement income benefits and claim administration costs. The benefit liabilities are determined in accordance with the Standards of Practice of the Canadian Institute of Actuaries (the "CIA"), including the standards for Public Personal Injury Compensation Plans, and legislation in effect at the end of the reporting period. Changes in the estimate of future benefit payments are recognized in benefit costs expense.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; these claims are ultimately paid by the self-insured Schedule 2 employers.

Employee future benefits

The WSIB maintains two employee defined benefit pension plans, and other defined benefit plans that provide benefits such as post-employment dental, extended health and life insurance benefits.

The obligations for these plans are measured as the present value of the benefit obligation less the fair value of plan assets and are included in the employee benefit plans liability. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

The cost of the defined benefit plans is actuarially determined using the projected unit credit method and includes management's estimate of expected plan investment performance, compensation level increases and retirement ages of workers.

The changes in defined benefit obligations and plan assets are recognized when they occur as follows:

a) Service costs and the net interest cost are recognized in administration and other expenses; and

b) Remeasurements, which include actuarial gains and losses, are recognized in other comprehensive income. Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

Termination benefits

Termination benefits refer to benefits payable to employees as a result of voluntary or involuntary termination of employment. The cost of termination benefits is recognized in administration and other expenses when the offer of the benefits can no longer be withdrawn.

4. Critical Accounting Estimates and Judgments

The WSIB is required to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the consolidated financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the consolidated financial statements, and actual results could differ from those estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

In addition, the WSIB has made judgments, aside from those that involve estimates, in the process of applying its accounting policies. These judgments can affect the amounts recognized in the consolidated financial statements.

Fair value measurement of investment properties (note 10)

The WSIB's investment properties are owned indirectly through subsidiaries or joint operations. Investment properties are re-measured to fair value at each reporting date, estimated based on the annual valuations performed by independent qualified appraisers. The annual third-party appraisals are performed at varying dates throughout the year; at each reporting date the fair value of investment properties is updated based on valuation models incorporating available market evidence. When estimating the fair value of investment properties, estimates and assumptions are made that have a significant effect on the reported value of investment properties. Estimates and assumptions used in determining the fair value of the investment properties include discount and terminal capitalization rates, inflation rates, vacancy rates and future net cash flows of the property.

Employee benefit plans (note 11)

The costs and liabilities associated with defined benefit pension plans and other long-term employee benefit plans are determined in accordance with actuarial valuations. The actuarial valuations rely on estimates and assumptions including those for wage escalation, expected return on plan assets, health care and dental cost inflation, retirement ages, life expectancies and discount rates. Changes in these estimates could have an impact on the employee benefit plans liability and total comprehensive income.

Benefit liabilities (note 12)

Benefit liabilities represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Changes in these

estimates and assumptions could have a significant impact on the measurement of benefit liabilities and benefit costs.

Fair value measurement of financial instruments (note 14)

Where possible, the fair value of publicly traded financial instruments is based on quoted market prices. The fair value for a substantial majority of financial instruments is based on quoted market prices or valuation models that use observable market inputs such as interest rate yield curves. Valuation models incorporate prevailing market rates and may require estimates for economic risks and projected cash flows.

5. Future Changes in Accounting Standards

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB"). These new or amended standards are not yet effective and the WSIB has not completed its assessment of their impact on its consolidated financial statements.

IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 was issued in November 2009, and subsequently revised in October 2010 and November 2013 as part of the IASB's ongoing project to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 will be effective for the WSIB beginning January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or at fair value, replacing the multiple classifications in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also includes guidance on the classification and measurement of financial liabilities, which largely carries forward the existing requirements in IAS 39. IFRS 9 was further amended on November 15, 2013 to introduce new guidance related to hedge accounting.

The IASB has proposed further amendments including an additional financial asset category for certain investments in debt securities, as well as amendments that address impairment.

IAS 19 *Employee Benefits* ("IAS 19")

Amendments to IAS 19 were issued in November 2013, which will be effective for the WSIB beginning January 1, 2015.

The amendments to IAS 19 clarify the accounting for contributions by employees or third parties to defined benefit plans.

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 will be issued in May 2014 and the effective dates will be published at that time. The new standard, which supersedes IAS 11 *Construction Contracts* and IAS 18 *Revenue* and related interpretations, improves financial reporting by creating a common revenue recognition standard for IFRSs and US GAAP that clarifies the principles for recognizing revenue and that can be applied consistently across various transactions, industries and capital markets.

Exposure drafts

a) Insurance contracts

In June 2013, the IASB issued a revised exposure draft containing proposals for significant changes to the existing recognition, measurement, presentation and disclosure requirements for insurance contracts. The IASB continues to work on these proposals with the objective of finalizing a new standard to replace IFRS 4 *Insurance Contracts*. This is an important standard that is expected to have a significant effect on the WSIB's consolidated financial statements, primarily as it relates to the measurement of benefit liabilities. The new standard is not finalized and will not have an effect on the consolidated financial statements until it is issued and effective. The date the new standard will be issued and the date the new standard will be effective are uncertain.

b) Other

The IASB regularly issues exposure drafts with proposals for new standards or amendments to existing standards. The WSIB's consolidated financial statements do not include disclosure of all exposure drafts issued by the IASB.

6. Revenues

	Three months ended March 31	
	2014	**2013**
Premiums		
Schedule 1 employer premiums		
Gross Schedule 1 premiums	1,123	1,070
Interest and penalties	10	13
	1,133	1,083
Schedule 2 employer administration fees	18	18
	1,151	1,101
Net mandatory employer incentive programs	(24)	(10)
	1,127	**1,091**
Net investment income (note 9)	709	722
	1,836	**1,813**

Premiums

Schedule 1 employers are those for which the WSIB is liable to pay benefit compensation for workers' claims. Premiums are primarily derived from total insurable earnings of Schedule 1 employers and are recognized over the period that coverage is provided.

Schedule 2 employers are employers that self-insure the provision of benefits under the WSIA. The WSIB administers the payment of the benefits for workers of Schedule 2 employers. The Schedule 2 employer administration fees represent revenues received for the administration of Schedule 2 benefit payments.

Net mandatory employer incentive programs

Net mandatory employer incentive programs represent the net surcharges and refunds related to Schedule 1 employer premiums based on an employer's claims experience.

Net investment income

Details of net investment income are provided in note 9.

7. Administration and Other Expenses

Administration and other expenses are comprised of the following:

	Three months ended March 31	
	2014	**2013**
Salaries and short-term benefits	97	94
Long-term benefit plans (note 11)	32	45
Bad debts	-	10
Communications	2	2
Depreciation and amortization	4	6
Equipment and maintenance	14	12
Facilities	11	10
New systems development and integration	7	1
Termination benefits	2	6
Other	8	7
	177	193
Claim administration costs allocated to benefit costs (note 12)	(102)	(109)
	75	**84**

Claim administration costs allocated to benefit costs represent management's estimate of the administration and other expenses directly related to the administration of benefit claims. For the purposes of this allocation, the WSIB has identified the roles and activities that are directly involved in the claim adjudication and payment processes. The direct costs of these roles and activities, including associated overhead costs, are allocated to benefit costs. Note 12 provides further details on the benefit liabilities and benefit costs.

8. Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalents. Cash and cash equivalents are comprised of the following:

	March 31 2014	**December 31 2013**
Cash	959	747
Short-term money market securities	431	527
	1,390	**1,274**

For management purposes, cash and cash equivalents are held as follows:

	March 31 2014	December 31 2013
Held for operating purposes	176	364
Held for investment purposes	1,039	740
Held in Loss of Retirement Income Fund	175	170
	1,390	**1,274**

9. Invested Assets and Net Investment Income

Invested Assets

The Board of Directors of the WSIB has established a Statement of Investment Policies and Procedures ("SIPP"), which establishes the policies governing the WSIB's investment portfolio. The SIPP is reviewed by the Board of Directors on no less than an annual basis and is amended as required.

The SIPP requires that the WSIB's investment portfolio be diversified across certain asset classes. The invested assets are currently diversified among five primary asset strategies as follows:

Fixed income	Bonds, debentures and other fixed income investments.
Public equities	Investment in the equity, or securities convertible into equity, of public corporations.
Multi-asset	Investments that seek to provide a diversified source of total return generated from the broad market and from active management. Investments within multi-asset may include derivatives, commodities, currencies, hedge funds, equities and fixed income investments.
Real estate	Real estate debentures and properties in Canada diversified across office, retail, industrial and mixed-use assets.
Infrastructure	Investments in transportation, utilities, energy and health care facilities.

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The WSIB's invested assets are held directly or held indirectly through investments in subsidiaries, associates, joint ventures or joint operations.

The following provides a summary of the nature of the invested assets by asset strategy:

	Fixed income	Public equities	Multi-asset	Real estate	Infra-structure	Other	Mar. 31 2014	Dec. 31 2013
Equity securities	-	**8,093**	**465**	-	**147**	-	**8,705**	**8,567**
Bonds	**5,126**	-	**423**	-	-	-	**5,549**	**5,448**
Other invested assets								
Investment funds	-	-	3,689	-	358	-	**4,047**	4,004
Real estate debentures	-	-	-	372	-	-	**372**	371
Investment properties (note 10)	-	-	-	1,154	-	-	**1,154**	970
Investments in associates and joint ventures	-	-	-	386	90	-	**476**	436
Derivative assets	-	8	73	-	-	-	**81**	37
Annuities	-	-	-	-	-	74	**74**	75
	-	**8**	**3,762**	**1,912**	**448**	**74**	**6,204**	**5,893**

Investments under securities lending program

The WSIB participates in a securities lending program through an intermediary for the purpose of generating fee income. Non-cash collateral, the fair value of which represents at least 102% of the fair value of the loaned securities, is maintained until the underlying securities have been returned to the WSIB. The fair value of the loaned securities is monitored on a daily basis by an intermediary financial institution with additional collateral obtained or refunded as the fair value of the underlying securities fluctuates. While in the possession of the counterparties, the loaned securities may be resold or repledged by such counterparties. The intermediary indemnifies the WSIB against any shortfalls in collateral. These transactions are conducted under terms that are usual and customary to security lending activities as well as requirements determined by exchanges where a financial institution acts as an intermediary.

Under the terms of the securities lending program, the WSIB retains substantially all of the risks and rewards of ownership of the loaned securities and also retains contractual rights to the cash flows. These securities are not derecognized from the consolidated statement of financial position.

As at March 31, 2014, the fair value of investments under the securities lending program was $1,245 (December 31, 2013 – $1,247). As at March 31, 2014, the fair value of securities maintained as collateral was approximately $1,321 (December 31, 2013 – $1,338).

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Net investment income

Net investment income is as follows:

	Three months ended March 31	
	2014	**2013**
Equity securities	492	653
Bonds	160	43
Investment funds	247	91
Real estate debentures	5	16
Investment properties	25	21
Income from associates and joint ventures	7	8
Derivatives	(136)	(26)
Short-term securities	1	2
Investment expenses	(43)	(33)
Less: Income attributable to Loss of Retirement Income Fund	(49)	(53)
	709	**722**

Net investment income is comprised of the following:

	Three months ended March 31	
	2014	**2013**
Realized and unrealized gains on financial instruments	1,376	1,317
Realized and unrealized losses on financial instruments	(739)	(661)
Interest and dividend income	132	123
Income from associates and joint ventures	7	8
Income from investment properties	25	21
Less: Income attributable to Loss of Retirement Income Fund	(49)	(53)
Investment income	752	755
Investment expenses	(43)	(33)
	709	**722**

10. Investment Properties

The reconciliation of carrying amounts for investment properties is set forth below:

	March 31 2014	December 31 2013
Balance, beginning of period	970	643
Asset acquisitions	-	51
Business combinations	184	224
Capital expenditures	7	17
Gains from increases in fair value	1	24
Other	(8)	11
Balance, end of period	**1,154**	**970**

Business combinations

During 2014, the WSIB acquired one income-producing investment property through the acquisition of its 100% interest for a total purchase consideration of $184.

During 2013, the WSIB acquired three income-producing investment properties through the acquisition of 100% of two businesses and 87% of another for total purchase consideration of $200.

Total assets acquired and liabilities assumed were as follows:

	March 31 2014	December 31 2013
Receivables and other assets	1	-
Investment properties	184	224
Payables	(1)	(2)
Total fair value of net identifiable assets	**184**	**222**
Non-controlling interests	-	(22)
Total consideration transferred	**184**	**200**

11. Employee Benefit Plans

The WSIB maintains two employee defined benefit pension plans and other defined benefit plans that provide benefits such as post-employment dental, extended health and life insurance benefits.

The cost of employee benefit plans is recognized as the employees provide service to the WSIB, and the liabilities for these plans are measured individually as the present value of the benefit obligation less the fair value of plan assets. The employee benefit plans liability represents the combined deficit of the plans at the reporting date.

Defined benefit plans expense

The cost of the employee defined benefit plans recognized in administration and other expenses is as follows:

	Three months ended March 31	
	2014	2013
Service cost	21	28
Net interest on the employee benefit plans liability	11	17
	32	**45**

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Remeasurements of the employee defined benefit plans recognized in other comprehensive income are as follows:

	Three months ended March 31	
	2014	**2013**
Actuarial gains and losses arising from changes in demographic assumptions[1]	(57)	-
Actuarial gains and losses arising from changes in financial assumptions[2]	(145)	33
Actuarial gains and losses arising from demographic and other experience	1	-
Return in excess of interest income on plan assets	60	73
	(141)	**106**

1. Commencing March 31, 2014, mortality assumptions for all employee future benefit plans, excluding Workplace Accident and Long Term Disability plans, were updated and are now based on a mortality improvement scale published by the CIA for financial reporting purposes for a broad range of Canadian pension plans.
2. As at March 31, 2014, the discount rate reflects the CIA approach. Under this approach, the discount rate is the rate that produces the same present value as obtained by applying notional zero coupon yields to the projected cash flow obligations for the plan. For the comparative and prior periods, the discount rate was based on long-term corporate yields.

Remeasurements are never reclassified to expenses; other comprehensive income related to the remeasurements is immediately transferred to the unfunded liability.

Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

	March 31 2014	**December 31 2013**
Present value of unfunded obligations	641	598
Present value of wholly or partly funded obligations	2,859	2,665
Total present value of obligations	3,500	3,263
Fair value of plan assets	(2,432)	(2,343)
Deficit	**1,068**	**920**

The movement in the total present value of defined benefit obligations is as follows:

	March 31 2014	**December 31 2013**
Balance, beginning of period	3,263	3,744
Current service cost	20	112
Contributions by employees	5	26
Interest expense on the defined benefit obligations	39	149
Actuarial gains and losses arising from changes in demographic assumptions	57	-
Actuarial gains and losses arising from changes in financial assumptions	146	(683)
Actuarial gains and losses arising from demographic and other experience	-	27
Benefits paid	(30)	(112)
Balance, end of period	**3,500**	**3,263**

The movement in the total fair value of plan assets is as follows:

	March 31 2014	December 31 2013
Balance, beginning of period	2,343	2,074
Return in excess of interest income on plan assets	60	176
Interest income on plan assets	28	81
Contributions by the WSIB	26	98
Contributions by employees	5	26
Benefits paid	(30)	(112)
Balance, end of period	**2,432**	**2,343**

Plan assets are comprised of the following:

	March 31 2014		December 31 2013	
Plan assets by major category				
Public equities	925	38%	902	39%
Fixed income	576	24%	560	24%
Real estate	210	8%	193	8%
Infrastructure	71	3%	63	3%
Multi-asset and other	650	27%	625	26%
Total	**2,432**	**100%**	**2,343**	**100%**

12. Benefit Liabilities and Benefit Costs

Benefit liabilities

Benefit liabilities represent the estimated present value of the WSIB's obligation for future benefit payments for reported and unreported claims incurred on or before March 31, 2014, including claims in respect of occupational diseases currently recognized by the WSIB. The estimated cost of administering those claims is also included in benefit liabilities. Benefit liabilities are based on the level and nature of entitlement under the WSIA and adjudication practices in effect at that date.

Benefit liabilities do not include any amounts for claims related to workers of Schedule 2 employers; the WSIB's payment of those claims is reimbursed by the self-insured Schedule 2 employer on an ongoing basis.

Benefit liabilities are actuarially determined in accordance with the standards of practice established by the CIA.

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Benefit liabilities are comprised of the following:

	March 31 2014	December 31 2013
Loss of earnings	9,470	9,314
Workers' pensions	6,237	6,318
Health care	3,771	3,721
Survivor benefits	2,581	2,579
Future economic loss	1,724	1,766
External providers	263	257
Non-economic loss	299	296
Long latency occupational diseases	1,565	1,565
Claim administration costs	1,148	1,144
	27,058	**26,960**

A summary of the changes in benefit liabilities is as follows:

	March 31 2014	December 31 2013
Benefit liabilities, beginning of period	26,960	27,050
Benefit costs	812	2,873
Benefit costs paid during the period	(714)	(2,963)
Benefit liabilities, end of period	**27,058**	**26,960**

Benefit costs

Benefit costs are comprised of the following:

	Three months ended March 31	
	2014	2013
Benefit payments	612	640
Claim administration costs	102	109
Change in actuarial valuation of benefit liabilities	98	196
	812	**945**

13. Commitments and Contingent Liabilities

Investment commitments

The WSIB had the following commitments related to its investment portfolio:

	March 31 2014	December 31 2013
Real estate, multi-asset and infrastructure investments	605	606
Investments in associates and joint ventures	160	198
Purchase or development of investment properties	13	197
	778	**1,001**

Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at March 31, 2014 were approximately $254 for the period April 1, 2014 to March 31, 2015.

Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.

The WSIB has provided formal written indemnities to its current and former directors to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, and amounts paid in settlement and damages incurred as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which they are involved as a result of their services.

Additionally, the WSIB has purchased directors' and officers' liability insurance. The WSIB also indemnifies and provides legal representation to all its employees, former employees and persons engaged by the WSIB to conduct an examination, test, enquiry or other authorized function in legal proceedings arising out of alleged acts or omissions in the performance of their duties, provided the person has acted honestly and in good faith.

Also, in the normal course of operations, the WSIB may enter into contractual arrangements with external parties that involve promises to indemnify the other party under certain circumstances. As part of its investment function, the WSIB may also provide indemnification agreements to counterparties that would require the WSIB to compensate them for costs incurred as a result of changes in laws and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification arrangements vary.

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14. Fair Value Measurement and Disclosures

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

Assets / Liabilities	Fair value measurement
Cash and cash equivalents, equity securities, bonds, investment funds, real estate debentures, annuities, derivative assets and derivative liabilities	Measured at fair value in the consolidated statement of financial position.
Receivables, payables and accruals	Measured at amortized cost in the consolidated statement of financial position. Due to the short-term nature of these financial assets and financial liabilities, the carrying amount approximates fair value.
Investment properties	Measured at fair value in the consolidated statement of financial position.
Long-term debt	Measured at amortized cost in the consolidated statement of financial position. Fair value as at March 31, 2014 was $189 (carrying amount – $167). Fair value as at December 31, 2013 was $191 (carrying amount – $168).

Due to the estimation process and the need to use judgment, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of assets or liabilities.

Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The classifications are as follows:

a) the use of quoted market prices for identical assets or liabilities (Level 1);

b) valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable (Level 2); and

c) valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (Level 3).

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

During the three months ended March 31, 2014 and the year ended December 31, 2013, there were no changes in the levels of classification of financial instruments. Transfers between levels within the hierarchy are recognized at the end of the reporting period.

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The following table provides the fair value hierarchy classifications for assets and liabilities:

	March 31, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value								
Cash and cash equivalents	959	431	-	1,390	747	527	-	1,274
Equity securities	8,520	185	-	8,705	8,392	175	-	8,567
Bonds	-	5,549	-	5,549	-	5,448	-	5,448
Investment funds	-	4,047	-	4,047	-	4,004	-	4,004
Real estate debentures	-	-	372	372	-	-	371	371
Investment properties	-	-	1,154	1,154	-	-	970	970
Derivative assets	-	81	-	81	-	37	-	37
Annuities	-	74	-	74	-	75	-	75
Derivative liabilities	-	(56)	-	(56)	-	(78)	-	(78)
Liabilities for which fair value is disclosed								
Long-term debt	-	(189)	-	(189)	-	(191)	-	(191)

The table below provides a general description of the valuation methods used for fair value measurements.

Hierarchy level	Valuation method
Level 1	Fair value is measured as the closing bid price for identical assets in an active public market at the reporting date.
Level 2	Where bid prices in an active public market are not available, observable inputs are used to estimate fair value using a market approach or an income approach. When using a market approach, fair value is estimated by adjusting the market price of a similar asset or liability, using inputs such as quoted interest or currency rates. Estimated fair value using an income approach is based on fixed future cash flows discounted using market interest rates for similar assets or liabilities.
Level 3	*Real estate debentures* The fair value of the real estate debentures is estimated using valuations of the underlying investment properties, with the same methods as noted below for investment properties. *Investment properties* Fair values of investment properties are estimated based on valuations performed by qualified appraisers. The valuations of the investment properties are primarily based on discounted expected future cash flows of each property, using discount and terminal capitalization rates reflective of the characteristics, location and market of the property. The future cash flows are based on, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such

current and future leases. At least one valuation per year for each property is based on an independent appraisal.

Real estate debentures (Level 3 fair value measurements)

The table below provides a reconciliation of the fair value of real estate debentures:

	March 31 2014	December 31 2013
Balance, beginning of period	371	356
Purchases	-	3
Sales	-	(1)
Unrealized gains recognized in net investment income	1	13
Balance, end of period	**372**	**371**

The following discount and terminal capitalization rates were used in the discounted cash flow estimates of fair value:

	March 31 2014	December 31 2013
Real estate debentures		
Discount rates	5.5% - 8.3%	5.5% - 8.5%
Terminal capitalization rates	4.8% - 7.5%	4.8% - 7.8%

The WSIB has estimated that a 50 basis point increase in the assumptions used for both the terminal capitalization rate and discount rate would result in a $38 decrease (December 31, 2013 – $40) in the fair value of the real estate debentures. A 50 basis point decrease in the assumptions used for both the terminal capitalization rate and discount rate would result in a $43 increase (December 31, 2013 – $45) in the estimated fair value of the real estate debentures. The WSIB has also estimated that a 5.0% increase (decrease) in the expected future cash flows of the underlying properties would result in an increase (decrease) of $21 (December 31, 2013 – $21) in the fair value of the real estate debentures.

15. Related Party Transactions

Government of Ontario and related entities

The WSIB is a trust agency of the Government of Ontario, responsible for administering the WSIA. As such, the WSIB is considered a government-related entity and is provided partial exemptions under IFRS from its disclosure of transactions with the Government of Ontario and its controlled ministries, agencies, and Crown corporations.

Pursuant to the WSIA, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the OHSA. The WSIB is also required to fund costs associated with the MoL's prevention activities, the Workplace Safety and Insurance Appeals Tribunal and the offices of each of the Worker and Employer Adviser. These reimbursements and associated amounts charged to employers are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for voluntary employer incentive programs, the Institute for Work & Health and the Safe Workplace Associations, clinics and training centres. The total funding provided under these legislated obligations and funding commitments for the three months ended March 31, 2014 was $76 (2013 – $79).

In addition to legislated obligations and workplace health and safety expenses, which the WSIB collectively presents in legislated obligations and funding commitments expense, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various controlled ministries, agencies and Crown corporations of the Government of Ontario.

Included in bonds are $1,090 of marketable fixed income securities issued by the Government of Ontario and related entities (December 31, 2013 – $1,083).

Post-employment benefit plans

The WSIB's two employee defined benefit pension plans and other long-term employee benefit plans are considered related parties. Note 11 provides details of transactions with these post-employment benefit plans.

16. Subsequent Events

On May 1, 2014, *Ontario Regulation 113/14* under the WSIA came into effect, amending *Ontario Regulation 253/07* (Firefighters) to provide new presumptions for six additional cancers. Three of these presumptions take effect on May 1, 2014. The remaining presumptions will be phased in over the next three years. As per the WSIA, the presumptions are retroactive to January 1, 1960. For the presumptions to apply, breast and testicular cancers require 10 years' service before diagnosis. The other conditions require 15 years' service. Under this new regulation, the WSIB's benefit liabilities and unfunded liability are estimated to increase by approximately $150 million. Finalization of the actuarially determined benefit liabilities for these presumptive claims will be completed by June 30, 2014 and the estimated impact of this regulation will be reflected in the Second Quarter 2014 Report to Stakeholders.